

Ai GROUP SUBMISSION

Fair Work Commission

**Annual Wage Review 2022-23
Post-hearing Submission**

23 May 2023

The logo for Ai GROUP, featuring the letters 'Ai' in a large, bold, white font with a stylized dot on the 'i', and the word 'GROUP' in a smaller, bold, white font directly below it.

Ai
GROUP

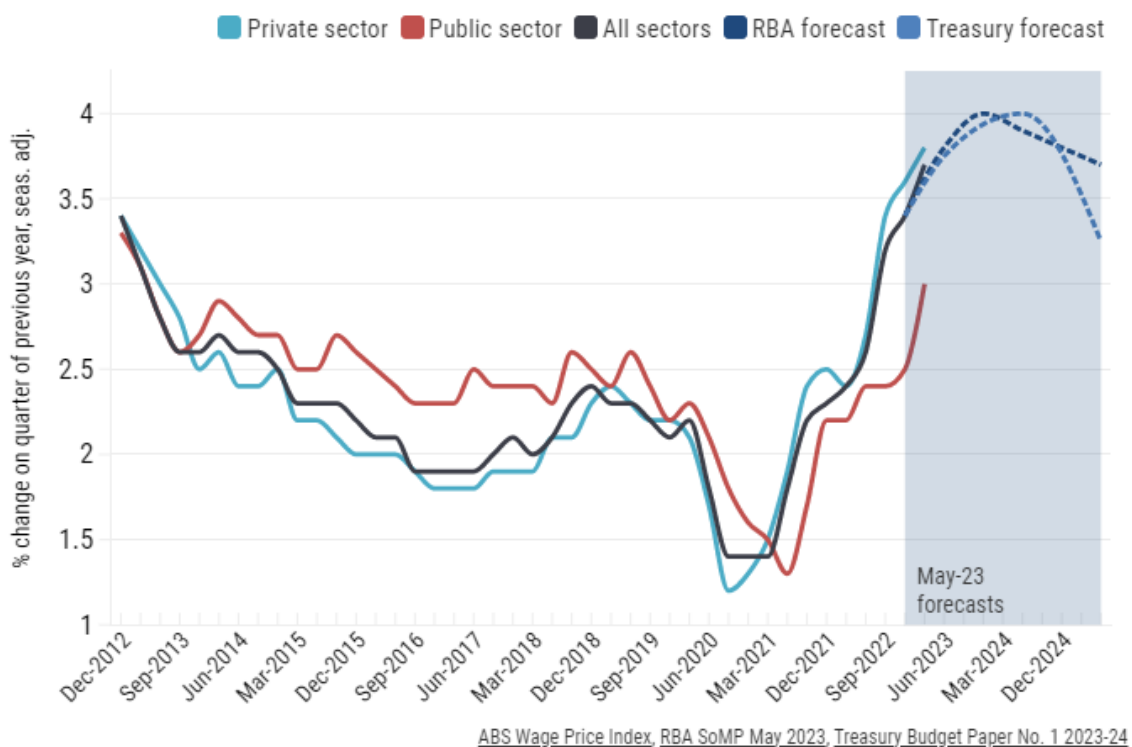
Ai Group files this submission in accordance with the amended directions of Commission, issued on 19 May 2023.

ABS Wage Price Index data for March quarter 2023

ABS WPI data for the March quarter of 2023 shows that wages growth is continuing to accelerate. The WPI grew 0.8% in the quarter and is now growing at a 3.7% annual rate. This was driven by strong growth in public sector wages, which jumped from 2.5% to 3.0% annualised growth in the quarter.

As Chart 1 below shows, the March quarter WPI data is very marginally above the path implied by current Treasury and RBA forecasts. It is therefore consistent with and supports arguments made by Ai Group in previous submissions that strong labour market performance is delivering strong nominal wage outcomes in Australia and is likely to continue to do so.

Chart 1: Australian Wage Price Indices and forecasts



ABS Labour Force Survey for April 2023

ABS Labour Force data for April 2023 shows softening in the performance of the Australian labour market. In the month, the unemployment rate increased from 3.5% to 3.7% (a growth of 18,400 persons), while the number of employed persons fell by 4300.

While single-month movements in the labour market are not always indicative of longer-term trends, April 2023 was particularly weak by recent standards (see Chart 2). The total labour force only grew by 14,100 persons in the month, a relatively low growth month in comparison to the past year. Yet in net terms, none of this labour force growth was absorbed into employment. The entire 14,100 new entrants were added to the unemployed persons category, and another 4,300

previously employed persons lost employment during the month.

Since the start of the pandemic, there has only been one other month (October 2021) in which the labour market was unable to absorb any of the new entrants to the labour force in net terms.

Chart 2 Monthly changes in Australian labour force



Source: [ABS Labour Force Australia \(A84423043C, A84423046K, A84423047L\)](#)

Future labour force surveys will reveal whether April is an anomalous result, or whether it marks a turning point in the labour market cycle. However, In the context of a slowing economy, there are reasons to be concerned that the April employment data represents a turning point in the labour market cycle. This data increases the importance of striking a careful balance between increasing the wages of low paid workers and minimising disemployment effects in what may be a slowing labour market.

Information note—Replicating Table 1 from Jericho & Stanford (2023)

Ai Group agrees with the methodology in the Commission’s *Information Note* of 15 May 2023 that replicates the results from Jericho & Stanford (2023)¹. Using EEH microdata, it appropriately estimates the total compensation covered by modern awards to be \$123.6 billion in 2022, approximately 10% lower than the \$137.9 estimate from Table 1 of Jericho & Stanford (2023).

However, Ai Group critiques how this parameter is then interpreted in Jericho & Stanford (2023), and in the ACTU’s reply submission². Our critique is two-fold:

¹ Jericho G & Stanford J (2023), Minimum wages and inflation, Centre for Future Work, The Australia Institute, April.

² ACTU, Reply Submission to the Annual Wage Review 2022-23, 28 April 2023, pp. 20-21.

1. *Increases in the NMW will have broader contributions to economy-wide wages increases beyond that of employees covered by modern awards.*

At Table 2, Jericho & Stanford estimate the “aggregate cost” of a 1% increase in the NWM will be \$1.38b, and a 7% increase of \$9.66b. Per the revised calculations in the Information Note, these figures might be revised down to \$1.24b and \$8.65b respectively.

However, this reasoning ignores the broader ‘flooring’ effect of the NWM in terms of alternate methods of setting pay. Enterprise agreement wage increases are, directly or indirectly, linked to minimum wages prescribed by awards, by virtue of s.193 of the Act (which prescribes the ‘*better off overall*’ test) and s.206 (which requires that the base rate of pay in an enterprise agreement must not be less than the base rate that would be payable to an employee under the modern award covering them). Wage setting in individual agreements is also done with reference to minimum wages. Put another way, the outcome of the AWR colours the conduct of bargaining and the expectations of the parties.

The increase to the aggregate wage bill of a 7% increase in the NMW will therefore exceed that of the additional \$8.65 billion paid to workers on modern awards. Ai Group made this argument in our reply submission³, which the ACTU in its post-budget submission indicated it did not dispute it⁴.

2. *The effects of an NMW rise on CPI cannot be estimated from National Accounts data*

Jericho & Stanford claim that a \$9.66b increase in the aggregate wage bill will result in ‘*an increase in economy-wide prices of just 0.39%*’. They do not explicitly define ‘*economy-wide prices*’. We have reproduced the analysis using their data source (Table 7 of the National Accounts) and believe they have expressed \$9.66b as a share of 2022 GDP. Using the revised data in the Information Note would lower their estimate to 0.35%. This provides a crude *ceteris paribus* estimate of the effect of these aggregate wage increases on the GDP deflator.

However, the GDP deflator is not an appropriate denominator for estimating the inflationary effects of wage increases. The GDP deflator measures all prices in the economy, whereas increased wages will primarily be directed towards purchasing consumer goods – as measured by the CPI indicator – only. An increase in aggregate wages will push up the CPI indicator (consumer goods only) by a much larger amount than it will the GDP deflator (all goods).

Both Jericho and Stanford and the ACTU claim this 0.39% figure equates to ‘*around one twentieth the inflation that occurred in 2022*’. This claim is clearly misleading, as 0.39% is expressed in terms of the GDP deflator, whereas 2022 inflation (7.8%) is expressed in terms of CPI.

Ai Group finally notes that it is not methodologically possible to estimate the effects of a NMW increase on CPI using National Accounts data, as that dataset does not include any measures of consumer prices.

³ Ai Group, Annual Wage Review 2022-23 Reply Submission, 28 April 2023, p. 19

⁴ ACTU, Supplementary Submission to the Annual Wage Review 2022-23, 12 May 2023, p. 29.



ABOUT THE AUSTRALIAN INDUSTRY GROUP

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation which has been supporting businesses across Australia for nearly 150 years.

Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for thriving industries and a prosperous community. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance businesses need. Our deep experience of industrial relations and workplace law positions Ai Group as Australia’s leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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